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# The Hidden Economics of Digital Lending: Algorithmic Credit Intermediation, Consumer Choice and Regulatory Accountability under India's Digital Lending Framework

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***Abstract***

*India's 2025 digital-lending framework expressly addresses transparency in the presentation of loan offers. This article explores the transparency of digital marketplaces for loans. It relies on doctrinal, institutional economics and behavioral economics theories and concepts to substantiate its arguments. The article argues that, despite similarities in the wording of multiple loan offers, there may exist differences in the priorities and values of the offers, and borrowers may not be able to consider all those factors. The article considers the 2025 framework issued by the Reserve Bank of India (RBI) as a positive development to regulate lending marketplaces. However, the article identifies an imbalance where regulated entities remain responsible for LSP oversight, but verifying the operation of those controls may be difficult. The article describes a "price-choice-accountability" triad to illustrate that lending marketplaces should establish reasonable processes based on prior notice, and control misleading practices. The article does not examine the extent to which lending marketplaces, guided by the 2025 Directions, have introduced loan offer interfaces that bias against borrowers.*

***Keywords***: *Digital lending; algorithmic intermediation; consumer choice; information asymmetry; credit regulation; lending service providers; India*

## 1. Introduction

Credit has increasingly flowed digitally. This has reduced the need for physical interaction between borrowers and credit providers. Prospective borrowers can download loan forms, complete them electronically and transmit them to credit providers online. Credit providers can evaluate loan applications and transmit loans electronically. The process of credit assessment and extension can be less costly and time consuming when undertaken online. Online search and evaluation of different loan terms can be comparatively easier. Digital environment can extend a borrower's opportunity to approach multiple credit providers. These, however, do not address the critical question of who or what, influences or determines the borrower's loan options. In the course of evaluating a borrower's loan options, what the borrower sees may not depict the actual loan options. This is because loan intermediaries may distort or restrict borrower's options based on the intermediary's commercial interests.

The RBI (2025a) clarifies and gives effect to the differences described above. Its Directions integrate and consolidate the earlier frameworks and directives on digital lending. In paragraph 6, the (RBI, 2025a) stipulate that from 1st November 2025, lending service providers (LSPs) would be required to provide borrowers a digital view of equivalent loan offers, identify lenders whose offers do not match the borrower's request, adopt similar comparison and evaluation standards for borrowers, and provide information on comparable loan terms. The (RBI, 2025a) also prohibit LSPs from distorting loan offers or adopting practices that are misleading to borrowers. The (RBI, 2025a) illustrate the central bank's concern and interest in the design of loan markets.

Two questions are asked in the article. After disclosure of loan information, what will constitute real choice for consumers in algorithm-based loan

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marketplaces? What is the accountability framework for such choices in India? The article states that disclosure operates at different levels (terms of contract, design of marketplace, and existence of institutions) and that for each level of risk, one can not rely on a regulator to fill the gap. The article is a legal and economic integration. The author hasn't stated that any marketplace is violating law or that negative consequences have been confirmed. Suggested possible negative effects and lack of market regulation can not be interpreted as market abuse.

**2. Method, contribution and limits**

This analysis incorporates close reading of the 2025 Directions and investigation of incentive structures in contracts of lenders and intermediaries. The primary legal documents are the 2025 Directions of the Reserve Bank of India (RBI) and its accompanying 2025 press release and the instructions to the 2024 KFS. Economic hypotheses are tested against theories of information asymmetry and credit rationing, consumer financial protection, and use of alternate data for credit risk. The analysis and recommendations are distinct from each other.

The scope is circumscribed. It does not attempt a wide-ranging analysis of artificial intelligence (AI) in financial services. It primarily examines the final phase in the credit granting process (last mile) where the intermediary exercises control and determines the manner in which credit offers are communicated to prospective credit consumers. It does not assess the efficacy of credit scoring models. It does not analyze compliance of credit data with the requirements of data protection. It does not assess the impact of credit regulations on the level of defaults.

Because of the absence of first-hand or proxy data, the author is not in a position to establish the impact of credit regulations on defaults or draw conclusions regarding data protection in the context of the case study. He does not attempt to evaluative causality based on limited or proxy data.

**3. Why a list of loans is not a neutral market**

Markets for credit are less developed than markets for other financial instruments. One reason is the lack of information. In his famous article, Akerlof (1970) described how a lack of information on the quality of goods can be an obstacle to trade. Stiglitz and Weiss (1981) looked at how interest rates and the process of screening prospective borrowers are interrelated. More recently, digital markets have transformed credit markets. Lenders still retain the right to decide on credit. Borrowers may rely on a Lending Service Provider (LSP) to access or compare offers, while the regulated lender remains responsible for the credit decision. From the borrower's perspective, analytically, there is a separation of the functions of credit decision making. From the LSP's perspective, these may be integrated and automated.

In standard economic thought, reduced search costs increase the number of alternatives examined by consumers. However, this may not always be the case, particularly when the party lowering search costs is competitive. An LSP may pay a fee for each customer that the LSP refers to a financial intermediary. Likewise, an LSP may enter into an agreement with a financial intermediary to ensure that the intermediary's credit offers are featured prominently. There is no necessary illegality in such contracts. From a consumer's (borrower's) perspective, it may be rational to select the credit offer that is featured prominently. The consumer (borrower) may not be aware that less favorable terms may be integrated within the offer, or that even equally favorable terms may be filtered out and positioned below the offer.

There are three elements to consider. First, lenders must be matched to the correct criteria in order to be eligible to make a loan offer. Once eligibility is determined, offers are ranked and displayed according to factors such as interest rate. Finally, the design of an interface may introduce varying levels of difficulty in identifying the best loan offer. Salient features of a loan offer interface may not necessarily be consistent with a borrower's interest. Although an algorithm used to rank loan offers may be consistently effective in achieving its objective, it

may not be appropriate for a borrower. From a regulatory perspective, it is prudent to examine both situations. Digital credit products may appear complex to borrowers, especially if they focus on the size of periodic repayments and not the total cost of the loan.

As Campbell et al. (2011) observe, consumer financial regulations are primarily established to correct market inefficiencies and protect consumers from financial risks in the launch and use of financial products. Digital lending products are based on the premise that the average consumer can and does make sound financial decisions. Nevertheless, the development of financial products may pose challenges in the presentation and accessibility of relevant information for sound financial choices. From the borrower's perspective, undue friction may increase the costs of comparing financial products. Conversely, low friction may facilitate premature financial choices. It is, however, possible that digital financial data may improve loan approval decisions and serve consumer interests, as shown by Berg et al. (2020) in their research.

**4. What the RBI framework actually does**

The 2025 Directions should be understood as distinct obligations. Paragraph 5 focuses on the contractual allocation of risk and ongoing duties of a regulated lender. Paragraph 6 focuses on transactions between multiple lenders. Borrower disclosure is addressed in paragraph 8 and the requirements relating to the cooling-off period and borrower complaints are in paragraphs 10 and 11 respectively. Provisions related to personal data and consent are in paragraphs 12 to 14 (RBI, 2025a). Each of these provisions outline when a lender is required to take certain steps to evidence compliance.

Paragraph 6 requires that Loan Service Providers (LSPs) give borrowers a digital display of all matching offers and identify lenders whose offers did not match the request. Each offer displays the lender, the loan amount and tenor, the annual percentage rate (APR), monthly repayment obligation and applicable penal charges, together with a link to the KFS. LSPs are required to treat similarly situated borrowers and loans in the same manner. Documentation should be retained evidencing the matching process and stating any changes to that process. Prohibited promotional activities include design elements that unduly favor a lender. Providing a ranking of offers based on a pre-determined and disclosed metric is not a violation of these Directions.

The Directions were officially issued on 8 May 2025, but some provisions of The Directions took effect on different dates. Specifically, paragraph 6 took effect on 1 November 2025. App reporting provisions contained in paragraph 17 of The Directions took effect on 15 June 2025. The remaining provisions of The Directions took effect immediately upon issuance. The RBI, in its press release, stated that the app directory assists borrowers to confirm whether a lending app is associated with an RBI-regulated Lending Entity. The press release clarifies that app directory contents are based on representations made by Lending Entities and that the RBI does not validate such representations. Consequently, inclusion in the App Directory does not mean that a lending app is valid or legal in any way (RBI, 2025b).

The KFS framework, in addition to other requirements contained in The Directions, aims at the standardization of important loan contract terms and conditions to facilitate the comparison of the cost of different loans. KFSs foster transparency in loan agreements and aid borrowers to calculate the actual costs of a loan. A KFS, however, does not provide borrowers with the reason why a given loan offer is displayed first on a lending app. Similarly, a KFS does not provide a borrower with the reason why a competing lender has not made a loan offer. There may be systemic risks posed by lenders using KFSs to implement changes in contractual terms, conditions, and requirements (i.e. tailoring an offering to win a competitive game against other lenders).

**5. Three levels of transparency**

Price transparency refers to the disclosure of a lender's APR, fees and charges, penalties, identity, and repayment schedule. The length of the loan

(tenor) is disclosed as well. Financial consumers are concerned about price when they are able to compare financial services. Rules promulgated by RBI, i.e. the offer-display rules and the Key Facts Statement (KFS) framework, are aimed at addressing price transparency. For accountability, the question is whether consumers were shown offers reflecting the true financial commitment. Providing consumers a document containing offers electronically does not resolve accountability concerns.

Choice-architecture transparency focuses on the rationale for the alternatives offered to borrowers. The RBI's rules and frameworks are also transitory, and therefore, offer some relief. The rules require the LSP's matching mechanism and any changes to be documented, and permit ranking by a publicly pre-disclosed metric. A short statement by a lender outlining the rationale for ranking offers does not necessarily illustrate the matching logic. A predetermined ranking of offers may be disclosed, but the effect of such ranking may not be apparent. Supervisory and borrower risk visibility and decision paths should be accessible.

Accountability and transparency refer to the capability of holding accountable the persons responsible for making decisions relating to an outsourced function. Accountability and transparency require the outsourcing entity to route complaints to the persons who have the authority and evidence to act on such complaints. Paragraph 5 confirms that the regulated entity retains responsibility for the LSP's acts and omissions. REs outsource or delegate credit intermediation function, but it does not exempt them from their regulatory duties. Nevertheless, attributed responsibility will not assist the RE in providing evidence to defend and/or explain its decisions. Responsibility becomes ineffective in such situations. In absence of such evidence, the responsibility is of no use to explain/correct the decisions made by a lending institution.

Each of the three situations described in this article illustrates a failure of a regulatory framework. A misleading Annual Percentage Rate (APR) indicates a failure of a framework in communicating an accurate price to the consumer. A list of loans, each of which is described correctly, indicates a failure of a framework to define an efficient marketplace. A complaint routed between a lending firm and app operator indicates a failure of a framework to ensure accountability of the parties involved. The situations have been generally described in the article as a lack of transparency. The classification is for analytical purposes. The RBI has not suggested any classification or framework.

**6. Incentive conflicts and the limits of formal compliance**

Sometimes a regulator will require ranking, e.g. by increasing APR, in an effort to avoid conflicts of interest. This type of prescribed ranking, however, could encourage a lender to restrict the borrower's choices. APR, however, provides potential borrowers with ease of comparison. In order to promote fair lending practices, consistency, and transparency, a ranking system should be used. Potential lenders have the freedom to determine the ranking system; however, verifying that the ranking system is fair and in the borrowers' interest is important. The 2025 guideline describes a ranking system and provides fair lending practices. The 2025 guideline grants potential lenders some freedom to be creative in their practices; however, there are limits as to what practices may be employed.

When a recommendation system appears to be personable and presents borrowers with a variety of options, but in actuality, commercial considerations direct the recommendation, this presents an ethical dilemma. To resolve this dilemma, potential lenders may disclose their ranking systems. From an ethical viewpoint, if lenders use default recommendations, and if potential borrowers are presented with offers based on the recommendations, then it is likely the recommendation system is in order. Additional considerations may include determination as to whether the borrower's options were reduced as a result of a recommendation system. In accordance with the law, potential lenders should follow rules and regulations and focus on practicing fair lending. If potential lenders clarify their rules, then, in the opinion of the author, this may encourage fair lending practices.

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There are tradeoffs between the borrower's right to self determination and the ability of financial services providers to identify potential borrowers. Let us say an intermediary identifies a lender willing to serve borrowers operating in the financial services sector that has been neglected. If borrowers are required to follow the same user journey, procedural fairness may be compromised. Fairness may, however, be restored if intermediaries keep records documenting the rationale used to classify borrowers, and allow supervisors to validate such records. Intermediaries may not be required to publicly communicate classified information. Thus trade secrets will be protected.

**7. A proportionate accountability architecture**

First, regulated entities are allowed to contractually stipulate that LSPs create and retain versions of various records. Such records could include criteria and logic used to rank offers and material changes to offers. Key states of user interfaces could also be captured and retained. Records should be kept only as long as necessary and in a secure manner. Records access should be restricted to only those users who need access. These measures should be based on the sensitivity of the records. This will enable regulated entities to properly perform their due diligence and review obligations. The article does not imply that financial services firms are required to preserve copies of each user interface screen.

Second, financial firms ought to be able to demonstrate that the user inputs retained by the firm allow reproduction of user-facing offers. This should be the case for offers in user-facing interfaces along the entire decisioning process and not solely as ascertained by policies and procedures. A financial firm could simulate a user decisioning process in a test and retain evidence of such process for an audit. This type of evidence and process is not described in the article. The audit and review processes of the firm should be sufficiently independent in order to evaluate whether compliance is favoring a particular service provider.

Third, disclosures to consumers should be provided in a stepwise manner. Initial disclosures should use consumer-oriented comparisons. Subsequent disclosures should, to the extent feasible, provide the basis for ranking and define what is not disclosed. Complaint mechanisms should identify the responsible RE. Disclosures of technical parameters could be cost-effective and could be provided to borrowers only to the extent such disclosures would be relevant to the borrower’s decision. Other persons, including supervisory and adjudicative personnel, could be provided access to additional information.

Fourth, mechanisms for the resolution of consumer complaints should, to the extent possible, permit borrowers to challenge rankings and matching, and not be restricted to challenging prices.

**8. Counterarguments, implementation and future research**

There are a number of concerns regarding the proposals. Record-keeping may increase costs for lenders and loan service providers (LSPs). Small to medium sized LSPs may be disproportionately impacted. Explanations may raise competitive concerns and provide rivals with strategic information. Extra choices and disclosures may serve only to confuse users. The RBI already requires regulated entities to implement adequate due diligence and takes action on client complaints. Further, compliance burdens should not be imposed unnecessarily. In light of the above, the stipulations should be implemented gradually and the RBI should focus its supervisory efforts on significant process and design changes.

In the authors' opinion, a greater emphasis should be placed on verification of service providers' accountability. Consequently, supervisory efforts should be directed on cases where (a) a multi-lender marketplace operates a large proportion of the end-to-end consumer service; (b) the rules governing the ranking of offers are amended frequently; or (c) the marketplace offers consumers a choice between a default option and other offers which are sponsored by third parties. In all of the situations outlined above, supervisory efforts should be directed on assessing whether the marketplace is operating in the best interest of consumers. Determining consumer awareness of APRs and enhancing

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consumers' ability to identify repayment dates may help assess the efficacy of various types of disclosures.

## 9. Extended economic and regulatory analysis

### 9.1 The intermediary as a two-sided market and the problem of endogenous choice

The LSP operates on various parts of borrower and lender behavior. For borrowers, it can, for instance, reduce the cost of weighing up different lenders. For both borrowers and lenders it can transform borrower information into requests for credit and determine the sequence in which credit offers are presented. In all of these cases, it affects the alternatives available to the borrower and lender. From an economic viewpoint, this means that it is necessary to analyze the credit market and the market for financial intermediation separately. In the market for credit, loan capital and risks associated with loans are priced. The market for financial intermediation determines, for instance, the prices at which financial institutions and other intermediaries charge for and evaluate the services they render. Since commercial considerations may prompt financial intermediaries to shape the information provided to borrowers in ways that do not always serve the interest of borrowers (Campbell et al., 2011; RBI, 2025a), it is necessary to analyze financial markets to evaluate if borrowers have the opportunities to compare the credit terms that are most favorable to them.

We will illustrate the concepts using a simple example. A borrower assesses an offer by looking at the overall burdensome nature of the offer including repayment, trust and confidence. An intermediary means commercial prosperity through successful completion of transactions and successful relationships with lenders. Although, a happy customer is also a long term business. From the example it is obvious that objectives of an intermediary need not always be identical to objectives of a borrower. Intermediaries charge fees regardless of the welfare of the borrowers after the transaction. An intermediary may charge higher fees for placement of a particular product. A mechanism to rank financial products is significant if it provides borrowers access to contracts before they make a commitment. Not all opacity in a marketplace is anticompetitive. An intermediary may claim to charge a given interest rate. The intermediary may not disclose the criteria it used to reach that decision.

From a policy perspective, it can be stated that no outright prohibition of intermediation will be allowed. Measures to promote multi-lender marketplaces will be allowed. A marketplace will be evaluated to determine if it enables a borrower to compare products in a meaningful way.

### 9.2 Screening, eligibility and the construction of the available market

As stated by the RBI (2025a), the multiple-lender provision requires LSPs to display all offers matching a borrower's request and identify unmatched lenders, as specified in the framework. Hence, matches should be defined for purposes of this analysis. From the perspective of an applicant, a match is determined once an offer is made. It may not be feasible for an applicant to assess an offer if it is not displayed by a lender. A lender may define its own criteria for evaluating the risks associated with an offer and the supporting evidence. Other considerations such as the desired minimum tenor and permitted borrower categories may also vary across lenders. The intention of the provision is to allow applicants to assess offers from lenders without arbitrary and unfavorable evaluations by lenders.

Two informational asymmetries are relevant to this analysis. The first is the risk that a prospective borrower may have material information that may not be observable to a potential lender and may be harmful to the interest of the potential lender (Akerlof 1970; Stiglitz and Weiss 1981). This situation creates adverse selection. Adverse selection may incentivize an intermediary to implement additional screening activities. The second situation may be described as opacity of the choice set. This situation occurs when a prospective borrower is unable to evaluate how an intermediary ranks potential lenders. In some situations, improved screening mechanisms may resolve adverse selection. However, improved mechanisms

may also increase the opacity of the choice set. Improved pricing mechanisms may increase the range of possible alternatives presented to the borrower. It is possible for non-traditional data to improve the effectiveness of credit risk assessments (Berg et al. 2020). Improvement in credit risk assessments does not address whether a given intermediary in the Indian market uses a given mechanism to assess credit risk. Improvement in credit risk assessments does not determine whether a given intermediary is using an unfair matching model.

An accountability test should assess (1) if selection criteria for matching were articulated in a manner that permitted their application, (2) if similar applications of the criteria resulted in consistent treatments, and (3) if differences in the criteria and treatments can be justified based on differences in eligibility of the lenders. Auditors may evaluate the decisions of the system to determine if the announced criteria were applied to deny loans. Documentation to support the decision may not need to be disclosed to the borrowers. A borrower should not be entitled to assume that a lender would provide better terms. The law may presume that a lender outside of the platform would have offered less favorable terms to a borrower.

### 9.3 Behavioural economics and the limits of a disclosed ranking rule

Disclosing which metric will be used to determine offer rankings may diminish one type of opacity. Other types will likely remain. Customers can only consider a small number of options. Defaults, design elements and other factors can influence the outcome of customers' decisions. These include the order in which offers appear, the color and size of offers, the placement of offers, the presence of a large figure representing an offer's instalment, or the number of offer cards required to express the total cost. People can and do exercise choice. However, architecture can influence consumer choices even when there are no legal restrictions and prices are not clearly expressed (Campbell et al., 2011).

The ordering of two offers can vary depending on the metric (i.e. APR, monthly instalment or total repayment) used for rank determination. Designating a single metric for rank determination gives consumers a means to compare offers; however, in some situations, this can overstate consumers' true welfare. For example, a monthly repayment can be structured in such a way that the total cost of the loan is less than another loan; however, the monthly repayments of the first loan may be larger than the second loan. The RBI has taken the view that clarity on the metric used to rank offers would allow consumers to compare offers; furthermore, the Directions also prohibit biased presentation and deceptive design even when a ranking metric is disclosed (RBI, 2025a). From a safety and security perspective, the RBI may wish to evaluate if the ranked offers indeed reflect the metric disclosed by the lending institutions.

Regulators need to differentiate three main ideas. The first is if the metrics, as stated, enable sorting of the list in question. This can be verified through calculations. The second idea is if the identified metrics are important for making the decision in question. This assesses the relevance of the identified metrics. The third and final idea is if the interface stays neutral throughout. This ideally requires an analysis of the consumer journey. The 2023 Guidelines of the Central Consumer Protection Authority incorporate a new idea of interface design. The interaction of consumer protection laws and the RBI's sectoral supervision also requires an in-depth legal analysis. It cannot be concluded that a violation of the consumer protection laws occurs automatically.

### 9.4 Competition, commercial incentives and potentially hidden transfers

Search costs decrease when borrowers can view several terms on an LSP. Eligible lenders will then disclose terms in an attempt to attract borrowers. Comparing terms may benefit borrowers who would have to analyze terms individually on multiple LSPs. Although lenders may compete to provide the lowest terms to borrowers, lenders may compete for other aspects such as access to the intermediary's loan distribution facility. Because of the relationships between lenders and intermediaries that borrowers cannot observe, the economic

meaning of terms may be different from what is observed. The study does not assert terms in Indian lending are structured in a particular fashion. The study suggests potential aspects that regulators may analyze when lending agreements are assessed.

A service fee between a lender and intermediary is not necessarily unlawful; whether any cost is passed to borrowers depends on the arrangement and applicable disclosure rules. If fees are sensible, lenders may be motivated to provide credit to potentially risky borrowers. Conflict of interest may be addressed with separation of roles and duties and by establishing guidelines for evaluating the terms to be offered. There may be risks in structures that help people obtain credit, but regulating or restricting these structures may be unwarranted.

Consideration should be given to other kinds of costs when evaluating and analyzing competition. Switches or transfers may, for example, entail costs that borrowers may find unattractive and unpleasant. From the point of view of a potential borrower, time costs may include the time required to complete several loan applications and the time and costs associated with being put through a financial institution's identification and verification process. A potential borrower may find it unattractive to incur time costs, as well as the psychological costs and risks associated with transferring sensitive personal information. The comparison of different offers may therefore constitute friction, or may provide opportunities to impose friction at a later stage. The objective of most regulations is to ensure that the borrower is able to make a free, informed choice. Switches, or actual transfers, may be required to determine whether borrowers are able to make free and informed choices. A doctrinal article may identify possible opportunity costs associated with competitive market conditions.

**9.5 Privacy, data minimisation and the economics of personalised credit**

Digital lending integrates two information relationships. The lender assesses borrower risk with the information provided. The borrower assesses the loan and the intermediary's data processing in relation to the loan. Improving predictive models may require more information from borrowers; however, collection of such information may affect borrower privacy and security and increase borrowers' inability to assess how the information would be used in the future. The RBI framework 2025 lays down guidelines on data and privacy. Transparency in digital lending is of importance (RBI, 2025a).

In the case of digital lending, full disclosure to borrowers on data processing may not achieve control in a meaningful way to borrowers. Borrowers may be unable to comprehend the long legal disclosures. Removing information that plays a role in assessing borrower risk may increase the cost of borrower risk assessment. Such information may also help borrowers in the future. There are situations where data may be collected and used for multiple purposes. In such cases, control and permission may be sought for individual data use. This may depend on the purpose for which the data is collected and used.

When assessing equality of treatment, there is less of an issue when more personalized offers are given. However, if an LSP claims that it relies on a matching process in order to avoid arbitrary treatment, the regulators should be concerned. A helpful process for the LSP would be to provide a description of its underwriting process for each outcome, and not to rely on a vague justification to provide a reason for its algorithm. The LSP should establish systems and procedures to allow the regulated lender to understand the process for assessing eligibility.The regulated lender remains responsible for the LSP's acts and omissions. The underwriting process should be integrated with the LSP's website to explain to consumers the basis for an application decision. The regulated lender should not be permitted to transfer liability for unlawful activities to the LSP. It is the obligation of the regulated lender to ensure that the LSP is operating in a lawful manner.

**9.6 The legal responsibility chain: outsourcing, evidence and remedies**

Allocation of responsibilities plays a key role in the functioning of the Framework. As per the RBI

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(2025a), regulated entities can outsource certain functions to LSPs. However, outsourcing will not change regulated entities' legal and regulatory responsibilities. The rule reflects the RBI's concern to prevent a situation where a borrower is required to work out how the regulated entity has internally organized its activities to determine upon whom responsibility has been attributed. A regulated entity, under the Framework, is free to attribute responsibility through internal mechanisms of its choice subject to applicable due-diligence, documentation and oversight requirements. Legal attribution is often of little help in obtaining sufficient information to exercise rights or enforce a duty to act upon another party.

Four major evidentiary questions can be framed. What standards did the user employ to compare lenders? Which lenders participated in the process and why? What information was displayed to the user and in what format? What is the basis for the user's allegation that the result was in error? Lender records may be of some assistance. However, such records may not reflect the user interface that was accessible to the lender at the time the record was made. To protect the interests of borrowers, and where records of a lender reflect that a borrower has exercised his/her rights, lenders may be required to retain such records and to destroy other records.

The RBI's framework for Ombudsmen provides an important alternate channel for the redressal of disputes for clients of entities regulated by RBI. A high complaint count shouldn't be read as an indication of improper conduct in the market place. The 2024-25 Ombudsman report recorded numerous complaints against regulated entities. This report doesn't indicate the prevalence of the incidents described in this article (RBI, 2025c). In order to establish accountability for episodes described in this article, it is important to identify the lender who extended credit through the platform. Additionally, the grievance procedure should be designed to differentiate complaints on credit eligibility from complaints on misrepresentation. Such a distinction is essential to treat borrowers fairly.

### 9.7 A supervisory testing protocol and risk-based implementation

A supervisory protocol could be developed from the framework for greater transparency. This does not mean the RBI has already developed such a protocol. Initially, reviewers would chart the contracts among the lender, LSPs, data vendors and customer support. This would help identify who changes eligibility criteria, who controls the order of presentation, and who accesses and adjusts the operational rules. A contractual promise to comply does not assist in explaining how the customer's journey actually occurs. The lender would identify and document the significance of changes to criteria and rules and retain such records. Changes would be controlled. The routines and results would be compared to the lender's customer journey and materially similar customer requests. The regulators would assess how quickly the LSP forwards documents to the regulated lender. Finally, how does the regulated lender respond to divergences between the customer journey and contracts? Who can authorize such response?

Complex ranking systems, comparison rules and interfaces that consumers rely on, would draw more scrutiny under a risk-based approach. Less complex systems would likely merit less stringent oversight. Both errors that are likely to occur if the risk-based approach is properly implemented share a similar Automation paradox. For example, reliance on opaque or poorly documented systems to implement a decision may be considered a negative factor. The policy problem is where to set the threshold between resources spent and decisions contestability and correctability. From what is known, this type of policy safeguard is likely to promote the interest of the average consumer. From the consumer's perspective, this policy is expected to enhance and promote the understanding of financial services and products offered to them.

### 9.8 Interpreting the 2025 directions after subsequent consolidation

Distinguishing when a rule is issued from when it is published is important. The RBI consolidated and issued the Digital Lending Directions on 8 May

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2025. Rules on multiple-lender arrangements took effect on 1 November 2025, having been issued on 8 May 2025 (RBI, 2025a). On 28 November 2025, RBI also issued institution-specific consolidated directions on credit facilities (RBI, 2025d); the applicable directions and later amendments should be checked for each category of regulated entity. The Digital Lending Directions 2025 and the later consolidated directions therefore provide important information on recent regulatory reforms. It is advisable that market participants familiarize themselves with recent master directions pertaining to the categories of financial entities within their purview. It should be noted that the Digital Lending Norms 2025, published in May, are not the only set of digital lending rules in effect as of the writing of this report.

Certain differences must be noted for the purposes of the analysis. A general economic analysis can touch upon the essentials of the framework governing multiple-lender arrangements. Compliance, however, would require a review of the specific text pertaining to the subject entity, as well as, any amendments. Banks, Cooperative banks and NBFCs, in the context of the business models employed by them, may have similarities; however, from the regulatory perspective, they must be treated differently. It is necessary to understand the limits of the regulatory frameworks, supervision and other related powers. The article has deliberately not documented all institution specific consolidated Directions. The focus is on principle rather than specific examples. This article is not to answer ongoing questions in Compliance.

From a scholarly perspective, consolidation creates problems by integrating different versions of rules. When citing rules, it is suggested that the May 2025 Directions be cited for the original rule, any applicable consolidated directions for its current form, and the RBI reports for regulatory context. Proposals for reforms should be made keeping in view the limitations placed on the regulator by consolidated versions of the rules and other directives.

## 10. Conclusion

India's digital lending guidelines take a demand-side approach to fair loan markets and consider the extent to which potential borrowers are presented with loan offers. RBI conduct rules for multi-lender arrangements go beyond basic loan disclosures by requiring objective offer displays and prohibiting misleading design. The main gap is in verifying whether loan offers presented to potential borrowers are actually described using the processes documented by intermediaries. The article outlines and assesses the role of three core legal duties in addressing opacity issues within price, choice architecture and accountability in the marketplace. Building on the current Indian framework, the Reserve Bank of India could mandate greater transparency in online intermediation and demand a reconstructable record and reasonable justifications for competitive intermediation decisions.

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